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		ACTION	INFO	DATE	INITIAL
1	DCI				
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Remarks

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Executive Secretary

5 March 1985

Date

3637 (10-81)

Approved For Release 2009/10/19 : CIA-RDP87M00539R002303850001-7

WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Executive Registry
85- 929/1

Date: 3/5/85 **Number:** 169145CA **Due By:**

Subject: Cabinet Council on Commerce and Trade Planning Meeting - March 6, 1985 - 2:00 P.M. - Roosevelt Room

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☐	☑
Justice	☑	☐
Interior	☐	☑
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☑
HUD	☐	☑
Transportation	☑	☐
Energy	☑	☐
Education	☐	☑
Counsellor	☐	☐
OMB	☐	☑
CIA	☐	☑
UN	☐	☑
USTR	☑	☐
Chief of Staff	☐	☐
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
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Executive Secretary for:		
CCCT	☑	☐
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CCMA	☐	☐
CCNRE	☐	☐

REMARKS:

Attached is an additional background paper for the Cabinet Council on Commerce and Trade meeting scheduled for Wednesday, March 6, at 2:00 P.M.

RETURN TO:

☐ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Tom Gibson
☑ Larry Herbolsheimer

Associate Director
Office of Cabinet Affairs
(Room 129, OEOB)

DCI EXEC REG

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TIVE OFFICE OF THE PRESIDENT
ICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

March 4, 1985

NET COUNCIL ON COMMERCE AND TRADE

ING GROUP ON EMPLOYMENT POLICY

ident's Commission on Industrial
etitiveness Recommendations on Displaced
ers

ations includes five initiatives the
n on Industrial Competitiveness (PCIC)
y to overcome the barriers to reemployment
rs confront. These recommendations have
Working Group on Employment Policy. This
rking Group's analysis of PCIC displaced
s.

ng Group believes the Commission's
t fit either the problem it has described or
d be discussed. For the most part it seems
s adopted the premises of the popular
slocated workers and their needs when it
Federal assistance is needed to help the
million workers it claims are bearing the
tructural change in the economy through
his starting point of the Commission's
l problems.

o not know how to define or identify
urately. The Commission defines them as
rated from their jobs in a declining
and who have 10 years or more job tenure,
o have experienced at least 26 weeks of
, because it is possible to arrive at any
the definitions and data sources used
the range to be less than the figures used
mate cited by the Commission is of limited
ons. At best the various estimates tell us
t large and certainly smaller than the
to be.

at the Commission confines itself to
stimates and uses them as the basis of its
analysts argue that this is an incorrect

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delivered sequentially, focusing initially on job search activities, followed by retraining when required for specific job opportunities.

To enhance the capacity of individuals to undertake successful job search, existing labor market information systems (specifically the U.S. Employment Service) must be strengthened. Congress should be encouraged to refocus the responsibilities of the Employment Service on its labor exchange functions. Employers' use of the system should be encouraged by systematic outreach efforts; conversely, employers are urged to make the system more useful by expanding the number and type of jobs they list.

Comprehensive labor market services are authorized under JTPA in the Block Grant to States for training as well as in title III which is for dislocated workers only. States are encouraged to use services sequentially. However, federalism principles which formed the basis of JTPA are at odds with the notion that States should be required to adopt specific service delivery policies.

Most outside observers and the Working Group agree that the Employment Service has been ineffective. However, the recommendation does not reflect the Commission's own analysis of why the public labor exchange is of such limited effectiveness, or recognize actions already taken that carry out a great deal of its recommendations. The rate of market penetration is well below 20% of all job vacancies. Employers obtain skilled labor more efficiently via other avenues. Research also indicates that many job seekers use the employment service only as a last resort after other means have been exhausted. A recommendation to enhance the system -- with the implied increase in funding -- ignores five decades of experience. The recommendation that Congress be encouraged to refocus the responsibilities of the Employment Service on its labor exchange function ignores what the JTPA Wagner-Peyser amendments did. They restructured Federal grants to give States a block grant with which they can perform the labor-exchange function as they desire. Other functions desired by the Federal Government are financed separately through reimbursable contracts.

Finally, the recommendation suggests that employers be encouraged to list more jobs with the Employment Service. That can be accomplished at the State level if Governors choose. However, the Working Group believes the danger of the recommendation is that it could be interpreted as favoring mandatory job listing, something we understand the Administration does not support.

THE WORKING GROUP BELIEVES THERE SHOULD BE A GREATER EMPHASIS ON: (1) USING EXISTING JTPA AUTHORITIES (FOR EXAMPLE, THE BLOCK GRANT AND TITLE III) FOR DELIVERING SEQUENTIAL JOB

TRAINING SERVICES, AND (2) ALLOWING STATES TO REFOCUS THE EMPLOYMENT SERVICE ACTIVITY ON LABOR EXCHANGE FUNCTIONS INSTEAD OF ENCOURAGING EMPLOYERS TO INCREASE USE OF THE SYSTEM THROUGH FEDERAL REQUIREMENTS.

3. Retraining and reemployment. Retraining is most effectively delivered in the context of employment. Incentives should be provided to employers to hire and undertake the training of displaced workers. The Commission recommends that the unemployment insurance (UI) system be revised to allow the use of UI benefits as reemployment/retraining vouchers for workers certified as displaced, thus providing a wage subsidy to employers agreeing to hire and retain (as necessary) these individuals. This alternative use of UI benefits should be available to the displaced employee during the regular benefit period (perhaps after the first thirteen weeks), thus linking more closely UI assistance with the goal of reemployment. To mitigate the danger of employers replacing their own employees with workers presenting vouchers, eligibility for the subsidy should be limited to those employers for whom the new hire represents an absolute increase in the workforce. To avoid the difficulties encountered with some of the JTPA-funded OJT efforts, the program should be structured so as to obtain agreement from participating employers to retain the vouchered employee for some minimum period to avoid undue windfall to the employer. Finally, States which have not done so should move swiftly to approve training programs, which approval would allow UI beneficiaries to continue to receive their benefits while being trained. Displaced workers having exhausted their UI benefits and currently receiving training under public programs, should be eligible for income maintenance, where necessary, during the training period.

The Working Group argues that this idea may have some merit if done at the discretion of the States rather than through Federal mandates. However, the Working Group also notes that the idea also has some severe problems. One is that the voucher proposal would create an invidious distinction among people drawing unemployment insurance benefits by creating a special class of UI recipients who will receive favored treatment and move up in the job queue through their eligibility for vouchers even though their unemployment experience may be no different from those who do not suffer a "dislocation". Because of the problems in identifying those who are truly dislocated we can be sure that pressure will build quickly to eliminate any distinction between groups thereby undermining the intent of the program. Even without such pressure, local officials are apt to certify anyone unemployed for more than 13 weeks as being eligible for the voucher. In any event, we are very likely to have a repeat of the Trade Adjustment Assistance (TAA) disaster, whereby many workers used the TAA subsidy but in the long run ended up with their former employer when there was a recall. A report on a

raining program started in California in 1982
is assumption. This $8.3 million tripartite plan
ed to serve 6,522 eligible dislocated workers.
ly 3,448 (53%) are reported to have signed up, with
(43% of participants, 22% of eligibles) finding
hose finding jobs, 983 were back with GM although
er plants. In total, only 511 found jobs outside
the program. This amounts to 8% of eligible and
icipants. Among other things, it seems clear that
se workers were not dislocated but cyclically

oblem with this recommendation is the perverse
it creates for employers. There is the possibility
arch will be lengthened and the average duration of
(and the cost to the UI system) may increase if
ee it is to their benefit to delay hiring someone
have been unemployed more than 13 weeks and are
r the voucher. In addition, since the proposal
ntain a limitation on the duration of the subsidy,
ble that most employers will claim it for the
ber of weeks allowed. This would increase the
orkers fully utilizing their benefits thereby
cost to the UI system substantially. Because of
nce rating in State UI taxes, this proposal would
eclining companies subsidizing new jobs in growing
ult that is inequitable.

l also creates a substantial enforcement problem
quires that only employers showing net increases in
be eligible for the subsidy. While intended to
alls and substitution of vouchered workers for
loyees, it will be difficult to monitor such
may penalize small companies and those with stable
There does not seem to be any reason to exclude
hires if the intent is to get the dislocated
to work somewhere, but the recommendation appears
hirings from consideration. The trade-offs in
f the recommendation are not easily resolved.

is recommendation suggests that dislocated workers
public training and who have exhausted their UI
eligible for income maintenance. If this means
ipends in JTPA training as under CETA, it is
Administration policy as expressed in JTPA.
seems unfair in the extreme to allow income
for dislocated workers (who in general are
well off to begin with) and deny such support to
participants who are by definition economically
ed and have no financial cushion. The Working
believes the Commission's analysis suggesting
th JTPA OJT programs is based on old data and is
Such references should be deleted.

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Requiring the Private Industry Councils (PICs) established under JTPA to tailor their programs to specific local or regional economic development plans would be inconsistent with the decentralist spirit of JTPA. However, if the recommendation means only that full consideration should be given to regional economic trends and projected investments, the Working Group believes it is simply common sense. Some States have located responsibility for JTPA in their economic development office or have the office represented on the State Job Training Coordinating Council which develops the State job training plan. This mechanism in JTPA also provides a method for strengthening the Employment Service labor exchange and outreach efforts to help dislocated workers more efficiently.

One addition to this recommendation would be to recognize specific policies that would stimulate economic development (e.g., reduced tax and regulatory burdens) or the establishment of Enterprise Zones.

THE WORKING GROUP SUPPORTS THIS PROPOSAL.

EXECUTIVE SECRETARIAT

ROUTING SLIP

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SUSPENSE ______________ Date

Remarks

per Ann: no-one is attending

cmj for [redacted]

Executive Secretary

5 March 1985

Date

STAT

3637 (10-81)

THE WHITE HOUSE

WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Executive Registry
85- 929

Date: 3/4/85 **Number:** 169145CA **Due By:**

Subject: Cabinet Council on Commerce and Trade Planning Meeting - March 6, 1985 - 2:00 P.M. - Roosevelt Room

	Action	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☐	☐
Justice	☑	☐
Interior	☐	☑
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☑
HUD	☐	☑
Transportation	☑	☐
Energy	☑	☐
Education	☐	☑
Counsellor	☐	☐
~~OMB~~	☐	☑
CIA	☐	☑
UN	☐	☑
USTR	☑	☐
Chief of Staff	☑	☐
GSA	☐	☐
EPA	☐	☐
NASA	☐	☐
OPM	☐	☐
VA	☐	☐
SBA	☑	☐

	Action	FYI
CEA	☑	☐
CEQ	☐	☐
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Deaver	☐	☑
Mc Farlane	☐	☑
Svahn	☑	☐
Chew *(For WH Staffing)*	☑	☐
Chapman	☐	☑
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Executive Secretary for:		
CCCT	☑	☐
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REMARKS:

There will be a Cabinet Council on Commerce and Trade meeting on Wednesday, March 6, at 2:00 P.M. in the Roosevelt Room.

The agenda is recommendations of the President's Commission on Industrial Competitiveness. Background material is attached.

RETURN TO:

☐ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Tom Gibson
☑ Larry Herbolsheimer

Associate Director
Office of Cabinet Affairs
456-2800 (Room 129, OEOB)

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THE WHITE HOUSE

WASHINGTON

March 1, 1985

MEMORANDUM FOR THE CABINET COUNCIL ON COMMERCE AND TRADE

FROM: MICHAEL A. DRIGGS mad

SUBJECT: Recommendations of the President's Commission on Industrial Competitiveness

Introduction

This is the fourth, and last, set of recommendations to be presented to the Council from the President's Commission on Industrial Competitiveness (PCIC). This set of recommendations contains items dealing with international trade, fiscal policy, federal tax policy, and regulatory policy.

As in the past, the Cabinet Council Working Group on Industrial Competitiveness has reviewed each of the recommendations. The Working Group includes representatives from the Departments of Commerce, Treasury, Labor, Justice, State. and Education, the Office of Management and Budget, the Office of the U.S. Trade Representative, and the Council of Economic Advisors.

This memorandum covers three areas. Council action to date is summarized. The current set of recommendations is presented for decision. Finally, a recommendation is made on the form of the Council's report to the President.

Summary of Council Actions

The PCIC has made 32 recommendations containing a total of 92 action items. We have kept tally by action item to simplify the presentation.

In the previous three meetings of the Council, 77 action items were considered. Of those, 17 were referred to an agency for specific consideration. In several cases, principally relating to the Eximbank and antitrust policy, assignments for later Council review were made. The bulk of the PCIC's action items, 54, were approved, endorsed or incorporated in current Administration activities to some degree. Only 6 were rejected, primarily because of their implicit assumption of greater federal spending.

Fifteen action items remain. Ten are presented in this memorandum. The remaining five are presented under separate cover as a report from CCEA's Working Group on Displaced Workers. That working group was asked to review the five PCIC items on disadvantaged workers because of related topics it had under review.

Recommendations

The actual PCIC recommendations are attached. Each is summarized below along with the recommendations of the Working Group.

1. Establish a cabinet-level Department of Trade.

The Working Group was split on this recommendation. Although there was disagreement of the form of organization to deal with trade matters, all agreed on the need for a single, coordinated position on trade policy. THE WORKING GROUP MAKES NO RECOMMENDATION FOR COUNCIL ACTION SINCE THIS TOPIC IS BEING CONSIDERED BY THE FULL CABINET.

2. Publish analyses of the anticipated effects of all proposed legislation, policies, or regulations affecting international trade.

This recommendation is similar to one considered, and rejected, by the Council in January. That proposal would have required an analysis of the impact on exports of any legislation or regulation. The Council was concerned that it would be inappropriate to highlight any one element of the formal review of these matters. Past experience with efforts like inflation impact statements indicate that this would be both burdensome and costly.

Trade is an important topic, however. And, by raising this point, the Commission has brought interagency attention to an informal practice that has grown over the years between OMB and USTR. OMB provides USTR access to all regulations under review. This allows a trade perspective to be given key proposals. Both agencies believe that excellent liaison has developed. The Working Group believes that the Commission's recommendation has highlighted and supported a key practice. WE RECOMMEND THAT THE COUNCIL AFFIRM THE IMPORTANCE OF TRADE IN REGULATORY DECISIONS AND ENCOURAGE OMB AND USTR TO CONTINUE TO CONSULT CLOSELY ON THESE MATTERS.

3. Develop an omnibus trade bill that will facilitate industry adjustment to global competition, respond to foreign targeting, and strengthen the trade laws.

The Working Group finds the thrust of this recommendation to be consistent with provisions of the Trade Act of 1984. As a result, several agencies are undertaking studies of foreign targeting practices and the Department of Commerce is revamping its procedures to administer unfair trade cases. Those studies are due June 1. Because these studies are underway, the Working Group believes that it is premature to recommend legislative action now. RATHER, WE RECOMMEND THAT THE COUNCIL DEFER DECISION UNTIL AFTER REVIEW OF THE RESULTS OF THOSE STUDIES AND THE REVISION OF TRADE CASE PRACTICES.

4. Intensify preparation for a new GATT Round.

The Working Group found this recommendation to be supportive and very helpful to Administration efforts to seek a new round of multilateral trade negotiations. THE WORKING GROUP RECOMMENDS THE COUNCIL ADOPT THIS RECOMMENDATION.

5. Pursue plurilateral agreements that could serve as a basis for multilateral GATT negotiations.

The Working Group believes that this is a viable alternative strategy to encourage heretofore reluctant trading partners to participate in a new GATT round. The U.S. has announced its willingness to pursue this approach. The U.S.-Israeli free trade area, for example, will soon go to the Congress for approval. We believe the Commission's recommendation in this area is helpful to the Administration's efforts and supportive of the overall objective. THE WORKING GROUP RECOMMENDS THE COUNCIL APPROVE THIS RECOMMENDATION.

6. Reduce the deficit by policies that emphasize steady non-inflationary growth and curb the growth of spending.

The Working Group believes that the Commission's recommendation in this area is supportive of the central theme of much of the Administration's economic policy. It will be helpful to describe the importance of keeping inflation under control and curbing the growth of spending. THE WORKING GROUP RECOMMENDS THAT THE COUNCIL ADOPT THIS RECOMMENDATION.

7. Restructure the tax system by indexing capital income and expense of loss items; placing greater reliance on taxing consumption; reducing the variation in effective rates of corporate income tax; allowing individuals to claim full deductions for capital losses; and broadening the income tax base.

The general thrust of these recommendations is consistent with the Treasury tax plan now under review within the Administration. We believe that the papers prepared by the Commission and this recommendation could provide useful analysis for Treasury's consideration. THE WORKING GROUP RECOMMENDS THAT THIS RECOMMENDATION BE PASSED TO THE TREASURY DEPARTMENT FOR ITS CONSIDERATION IN THE PREPARATION OF ITS NEW TAX PLAN.

8. The U.S. should pursue a stable monetary policy and the Federal Reserve should foster a stable moderate growth of money supply.

The Commission recognizes that general economic growth benefits from stable monetary policy. It also highlights that the Federal Reserve is not directly under the control of the

Administration. Bringing the need for stability in monetary policy to the public is supportive of and helpful to similar Administration policies in this area. THE WORKING GROUP RECOMMENDS THAT THE COUNCIL ADOPT THIS RECOMMENDATION.

9. Remove barriers to the efficient flow of capital -- regulatory policies should not excessively interfere with the free market flow of capital.

The Working Group supports the intent of this recommendation. The removal of capital market distortions is a worthy goal. We note, however, that this section of the Commission's report is fairly short and not specific in its proposed implementation. Nevertheless, restatement of this as a desirable policy goal is helpful to Administration efforts. THE WORKING GROUP RECOMMENDS THAT THE COUNCIL ADOPT THIS RECOMMENDATION.

10. Expand the role of the Office of Science and Technology Policy to require it to take action in the regulatory process to balance the needs of science and technology, the concerns about safety and the environment.

In discussions with staff of the Commission, the Working Group noted that the purpose of this recommendation is to bring greater attention and visability to innovation. A technical point of view might add more perspective in balancing competing needs and objectives in the development of federal regulations. The Commission believes that the Office of Science and Technology Policy does not play as active a role in this as it should. The Working Group supports the objective of the Commission in this area. It notes, however, that two existing mechanisms are currently in place that the Commission may not have been aware of which meet this objective.

Executive Order 12498, for example, gives OMB the authority to require from each agency a calendar of major regulatory actions anticipated during the coming year. This allows high level Administration review and advance notice of significant regulatory actions. This could provide sufficient information for OSTP to become aware of actions in which it may be interested. Secondly, an informal relationship has developed between the OMB regulatory staff and the USTR to insure that there is a review of key regulatory items from a trade perspective. This approach, however, is not general practice with OSTP. THE WORKING GROUP RECOMMENDS THAT THE COUNCIL SUPPORT THE OBJECTIVE OF THIS RECOMMENDATION AND MODIFY ITS IMPLEMENTATION BY URGING OMB AND OSTP TO DEVELOP APPROPRIATE LIAISON TO INSURE ADEQUATE ACCESS OF OSTP TO KEY REGULATIONS.

Council Report

On January 24, the President was briefed by PCIC Chairman John Young on the Commission's conclusions. Accordingly, the Working Group does not believe that another meeting with the President is necessary. WE RECOMMEND THAT THE COUNCIL AUTHORIZE SECRETARY BALDRIGE TO SEND A MEMO TO THE PRESIDENT ON ITS BEHALF, SUMMARIZING THE COUNCIL'S REVIEW OF THE PCIC REPORT.

Attachment

PRESIDENT'S COMMISSION ON **Industrial Competitiveness**

John A. Young
Chairman

December 14, 1984

MEMORANDUM TO THE CABINET COUNCIL ON COMMERCE AND TRADE

FROM: JOHN YOUNG

SUBJECT: COMMISSION RECOMMENDATIONS

Attached are the final six recommendations approved by the Commission for CCCT consideration:

- Trade and Investment Policy
- Capital Resources and Competitiveness
  - Reduce the Deficit
  - Restructure the Tax System
  - Pursue a Stable Monetary Policy
  - Remove Barriers to the Efficient Flow of Capital
- Health and Safety Regulations and Technological Innovation Needs

The back-up issue papers and supporting documentation for each recommendation are contained in the attached package. Also included is a list of all 32 PCIC recommendations submitted to the CCCT during the past year.

Attachments

736 Jackson Place NW Washington DC 20503 (202) 395-4527

TRADE AND INVESTMENT POLICY

The PCIC International Trade Committee proposes the following recommendations to the President on the topics of trade policy formation, trade law reform, and preparatory work on a new round of multilateral negotiations. After the initial listing of the recommendations, a discussion of each recommendation is contained in the attached paper.

Recommendations

1. THE COMMISSION RECOMMENDS THAT THE PRESIDENT PURSUE INITIATIVES TO IMPROVE THE TRADE POLICYMAKING PROCESS AND SEEK CONGRESSIONAL ADVICE AND ENACTMENT OF LEGISLATION ESTABLISHING A CABINET LEVEL DEPARTMENT OF TRADE. THE RELATED ORGANIZATION STRUCTURE AND PROCESS CHANGES SHOULD BE IMPLEMENTED TO ACHIEVE THE FOLLOWING OBJECTIVES:

   a) MAKE TRADE A PERMANENT NATIONAL PRIORITY;

   b) ESTABLISH A MECHANISM TO ENUNCIATE TRADE POLICY WITH A SINGLE STRONG VOICE;

   c) ACHIEVE STAFF CONSOLIDATIONS AND EFFICIENCIES TO ELIMINATE DUPLICATION AND OVERLAPS;

   d) ESTABLISH A MORE EFFECTIVE COORDINATING MECHANISM UNDER THE DIRECTION OF THE PRESIDENT FOR INTEGRATING, BALANCING AND RECONCILING DIFFERENCES BETWEEN DOMESTIC AND INTERNATIONAL POLICIES (TRADE, ECONOMIC, NATIONAL SECURITY, FOREIGN RELATIONS); AND

   e) INSTITUTE A POLICYMAKING PROCEDURE BY WHICH COMPETING OBJECTIVES ARE EXPLICITLY WEIGHED.

2. THE COMMISSION RECOMMENDS THAT THE PRESIDENT DIRECT ALL EXECUTIVE BRANCH AND REGULATORY AGENCIES TO PUBLISH ANALYSES OF THE ANTICIPATED EFFECTS OF ALL PROPOSED LEGISLATION, POLICIES OR REGULATIONS AFFECTING INTERNATIONAL TRADE FOR SUBMISSION TO THE CURRENT TRADE POLICY COORDINATING MECHANISM OR TO THE NEW POLICY COORDINATOR RECOMMENDED HEREIN.

3. THE COMMISSION RECOMMENDS THAT THE PRESIDENT ESTABLISH A TASK FORCE OF APPROPRIATE AGENCIES AND INDUSTRY, LABOR, AND AGRICULTURE REPRESENTATIVES TO EXAMINE U.S. TRADE LAW REMEDIES WITH A VIEW TO DEVELOPING ADMINISTRATION RECOMMENDATIONS FOR AN OMINIBUS TRADE BILL THAT WILL:

   (a) FACILITATE INDUSTRY ADJUSTMENT TO INCREASED GLOBAL COMPETITION;

(b) RESPOND TO THE TRADE EFFECT OF GOVERNMENT POLICIES DESIGNED TO FOSTER THE DEVELOPMENT AND EXPORT CAPABILITY OF SELECTED INDUSTRIES; AND

(c) STRENGTHEN U.S. STATUTES GOVERNING UNFAIR TRADE PRACTICES.

Recommendations

4. THE COMMISSION RECOMMENDS THAT THE PRESIDENT INTENSIFY PREPARATORY WORK WITH INDUSTRY PARTICIPATION AND CONSULTATION FOR A FUTURE ROUND OF GATT NEGOTIATIONS AIMED AT ADDRESSING THE KEY TRADE-DISTORTING ISSUES OF THE COMING DECADE. THE MORE URGENT OF THESE APPEAR TO BE: GOVERNMENT PRACTICES AFFECTING INDUSTRY DEVELOPMENT; IMPORT SAFEGUARDS; COUNTERTRADE; COMMERCIAL COUNTERFEITING AND INTELLECTUAL PROPERTY RIGHTS; DIRECT FOREIGN INVESTMENT; PERFORMANCE REQUIREMENTS; INTERNATIONAL TAX PRACTICES; TRADE IN SERVICES; TRADE IN AGRICULTURE; AND THE GATT DISPUTE SETTLEMENT PROCESS.

5. THE COMMISSION RECOMMENDS THAT THE UNITED STATES PURSUE PLURILATERAL AGREEMENTS THAT COULD SERVE AS A BASIS FOR MULTILATERAL GATT NEGOTIATIONS IN ORDER TO EXTEND CODE COVERAGE AND INCREASE DEVELOPING COUNTRY COMMITMENT TO THE MULTILATERAL TRADING SYSTEM.

CAPITAL RESOURCES AND COMPETITIVENESS

RECOMMENDATIONS

The Commission recommends four major policy thrusts designed to increase competitiveness by reducing the cost of capital, expanding its supply, and improving its allocation. A larger, modernized, better allocated, and more effectively utilized stock of capital is necessary to boost productivity, keep the U.S. economy strong, and thus add to competitiveness. Specific recommendations include:

1. Reduce the deficit. The supply of capital should be increased by reduction of the federal deficit, particularly through actions that emphasize steady, noninflationary economic growth and that strictly curb spending growth. Immediate legislative action should be taken to implement policies that would substantially cut the Federal deficit over the next three or four years. A lower deficit will mean the government is competing less for funds, which will enlarge the supply available for private investment. The reduced competition from the federal sector will lessen the pressure on the Federal Reserve to buy some of the added debt and thereby inflate the money supply. Both the lowered competition for funds and the lessened expectation of inflationary action by the Federal Reserve will bring down the cost of capital.

2. Restructure the tax system. Productive investment should be stimulated by restructuring the tax code so that (1) the efficiency with which resources are allocated is improved, and (2) the cost of capital is lowered (whether or not the overall level of revenues is changed). Restructuring should include:

(1) extension of indexing to capital income and expense or loss items;

(2) reduction in the bias against savings and investment, in particular through greater reliance on taxation of consumption (but without abandoning progressivity), and by ending double taxation of corporate profits when received as either dividends or capital gains;

(3) reduced variation in effective tax rates on corporate income to make the corporate tax more neutral among industries and asset types, for instance by giving serious consideration to replacing depreciation and credits with expensing for all assets;

(4) reduction in the disincentives to venture and other risk capital investment, for instance by allowing individuals to claim fuller deductions for capital losses; and

(5) selective base broadening to reduce distortions and preferences in the personal income tax, provided this does not increase current disincentives for savings and investment.

3. Pursue a stable monetary policy. The Federal Reserve should foster stable, moderate growth of the money supply. In conjunction with

spending restraint and a tax system that is less biased against productive investment, a steady monetary policy should lower the cost of capital by lowering inflation premiums caused by excessive money growth and risk premiums caused by sudden policy swings.

4. Remove barriers to the efficient flow of capital. Regulatory policies should be designed and administered so as to accomplish their legitimate goals in ways that do not excessively interfere with the free market flow of capital. For example, growth of small companies has been aided by relaxation of the rules governing private placements and public issuance of new securities.

Revised 10/30/84

President's Commission on Industrial Competitiveness
Committee on Research, Development and Manufacturing

BALANCING REGULATION WITH THE NEEDS OF INDUSTRIAL COMPETITIVENESS

In the long run America's competitive position depends to a considerable extent on our leadership in science and technology. However, the harsh fact is that health, safety and environmental regulation has come to have a significant unnecessary inhibiting effect on technological innovation. The impact of these regulations on innovation, research, development and product approval has been examined. The following findings and recommendations are limited to the impact of regulation on these narrow but highly important areas.

Regulations raise costs and lengthen development times; they reduce the number of products emerging from R&D and raise prices. Ultimately these trends are a disincentive to R&D in the U.S. and lessen America's commpetitive edge. U.S. companies are disproportionately hurt because of their strength in the U.S. market.

A considerable body of literature confirms the inhibiting effects of regulation on innovation. In newer industries like biotechnology and medical devices, this impact is likely to prevent American industry from realizing its full potential. In industries like chemicals, pharmaceuticals and pesticides, the negative impact on R&D is already well documented.

Ultimately the issue is not whether regulations should exist. Their benefits are clear and the public supports the concept of regulation. However, there are many unnecessary or unintended regulatory constraints on R&D which should be eliminated. International competition is becoming increasingly severe, and every reasonable step should be taken to maintain and strengthen the nation's competitive position. Accordingly, existing regulations should be reexamined and the full consequences of potential new regulations carefully examined to assure that safety concerns are balanced with the needs for innovation and industrial competitiveness.

Since health, safety and environmental regulations have evolved over a number of years and represent a considerable body of rules and procedures, it is hardly surprising that no panacea can solve the problem. One concrete step that the President can take is as follows:

Recommendation: A new and key way to address regulations pertinent to innovation, research, development and product approval is to

- EXPAND THE ROLE OF THE OFFICE OF SCIENCE AND TECHNOLOGY POLICY TO REQUIRE IT TO TAKE ACTIONS IN THE REGULATORY PROCESS TO BALANCE THE NEEDS OF SCIENCE AND TECHNOLOGY WITH CONCERNS ABOUT HEALTH, SAFETY AND THE ENVIRONMENT. IF THE PCIC RECOMMENDATION TO FORM A DEPARTMENT OF SCIENCE AND TECHNOLOGY IS IMPLEMENTED, THIS ROLE SHOULD BE TRANSFERRED TO THE NEW DEPARTMENT.

- A concerted effort can make a difference in America's competitive position. The new Administration should put this issue high on the national agenda in 1985. A special PCIC report that documents the need for this further regulatory reform is attached.